

**Kotler
Keller**

14
**Developing Pricing
Strategies and Programs**



Chapter Questions

- How do consumers process and evaluate prices?
- How should a company set prices initially for products or services?
- How should a company adapt prices to meet varying circumstances and opportunities?
- When should a company initiate a price change?
- How should a company respond to a competitor's price challenge?



Synonyms for Price

- Rent
- Tuition
- Fee
- Fare
- Rate
- Toll
- Premium
- Honorarium
- Special assessment
- Bribe
- Dues
- Salary
- Commission
- Wage
- Tax



The Internet Changes the Pricing Environment – By Providing Information



Common Pricing Mistakes

- Determine costs and take traditional industry margins
- Failure to revise price to capitalize on market changes
- Setting price independently of the rest of the marketing mix
- Failure to vary price by product item, market segment, distribution channels, and purchase occasion

Consumer Psychology and Pricing

- Reference prices
- Price-quality inferences
- Price endings
- Price cues





Table 14.1 Possible Consumer Reference Prices

- “Fair price”
- Typical price
- Last price paid
- Upper-bound price
- Lower-bound price
- Competitor prices
- Expected future price
- Usual discounted price

Tiers in Pricing





Steps in Setting Price

- Select the price objective
- Determine demand
- Estimate costs
- Analyze competitor price mix
- Select pricing method
- Select final price



Step 1: Selecting the Pricing Objective

- Survival
- Maximum current profit
- Maximum market share
- Maximum market skimming
- Product-quality leadership



Step 2: Determining Demand

- Price sensitivity
- Estimate demand curves
- Price elasticity of demand

Figure 14.1 Inelastic and Elastic Demand

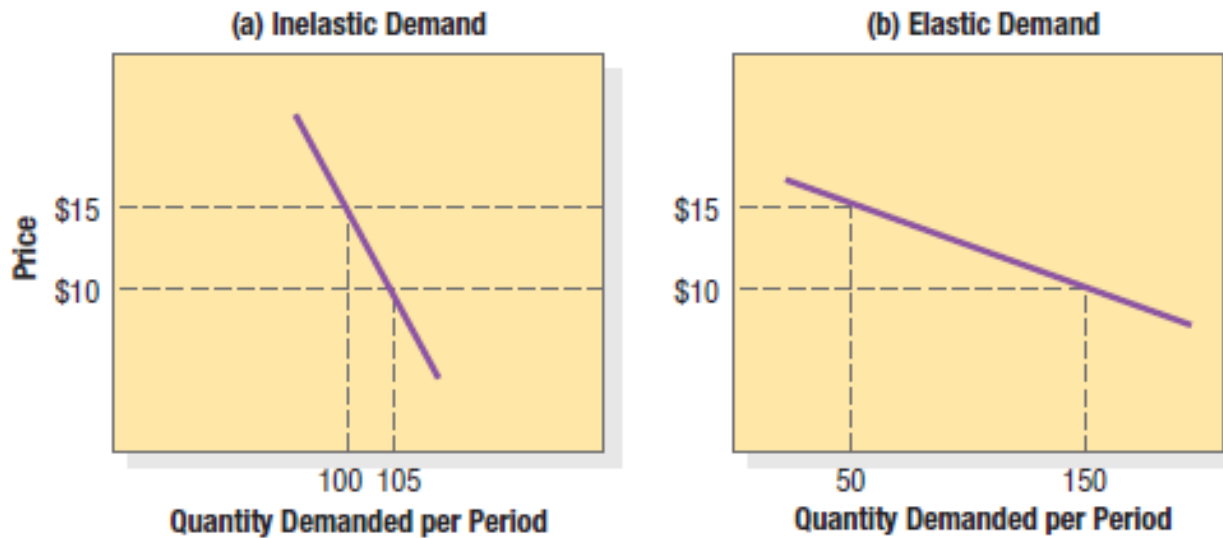


Table 14.3 Factors Leading to Less Price Sensitivity

- The product is more distinctive
- Buyers are less aware of substitutes
- Buyers cannot easily compare the quality of substitutes
- Expenditure is a smaller part of buyer's total income
- Expenditure is small compared to the total cost
- Part of the cost is paid by another party
- Product is used with previously purchased assets
- Product is assumed to have high quality and prestige
- Buyers cannot store the product

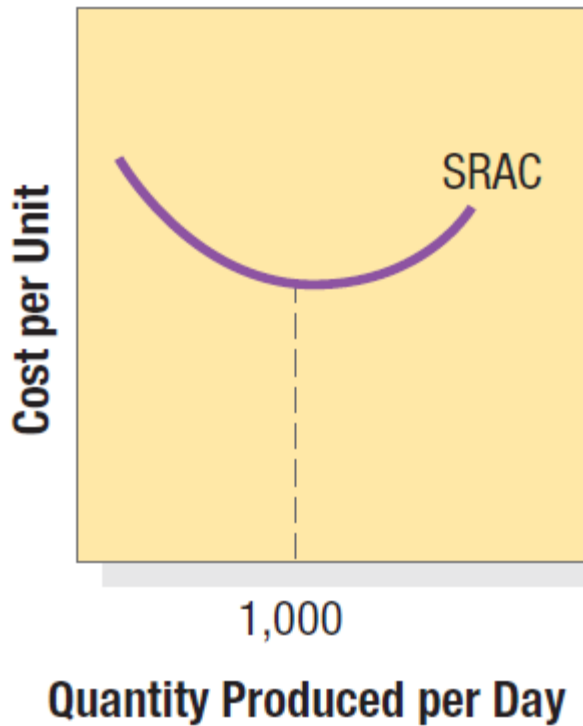


Step 3: Estimating Costs

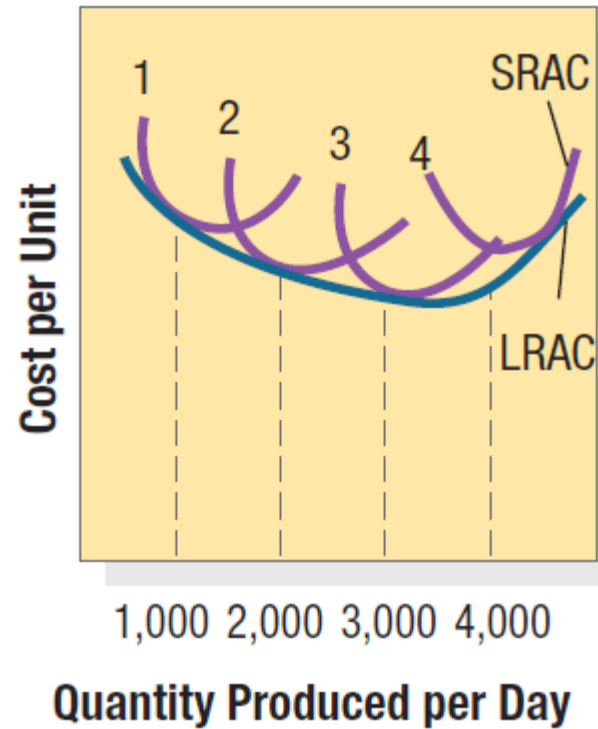
- Types of costs
- Accumulated production
- Activity-based cost accounting
- Target costing

Figure 14.2 Cost Per Unit at Different Levels of Production

(a) Cost Behavior in a Fixed-Size Plant



(b) Cost Behavior over Different-Size Plants

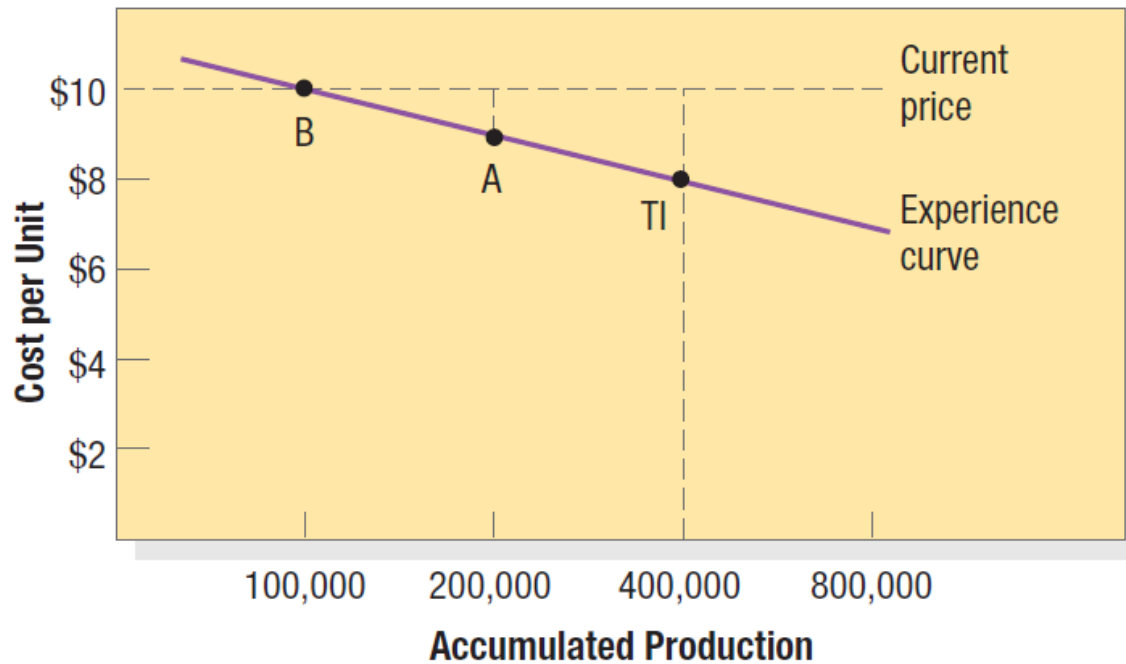




Cost Terms and Production

- Fixed costs
- Variable costs
- Total costs
- Average cost
- Cost at different levels of production

Figure 14.3 Cost per Unit as a Function of Accumulated Production



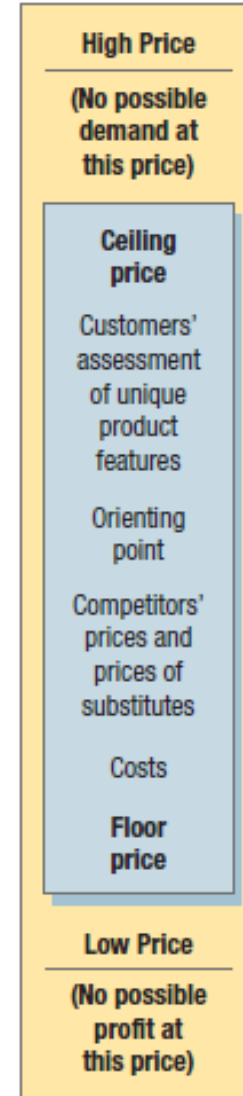
Target Costing



Analyzing Competitor's Costs



Figure 14.4 The Three Cs Model for Price-Setting

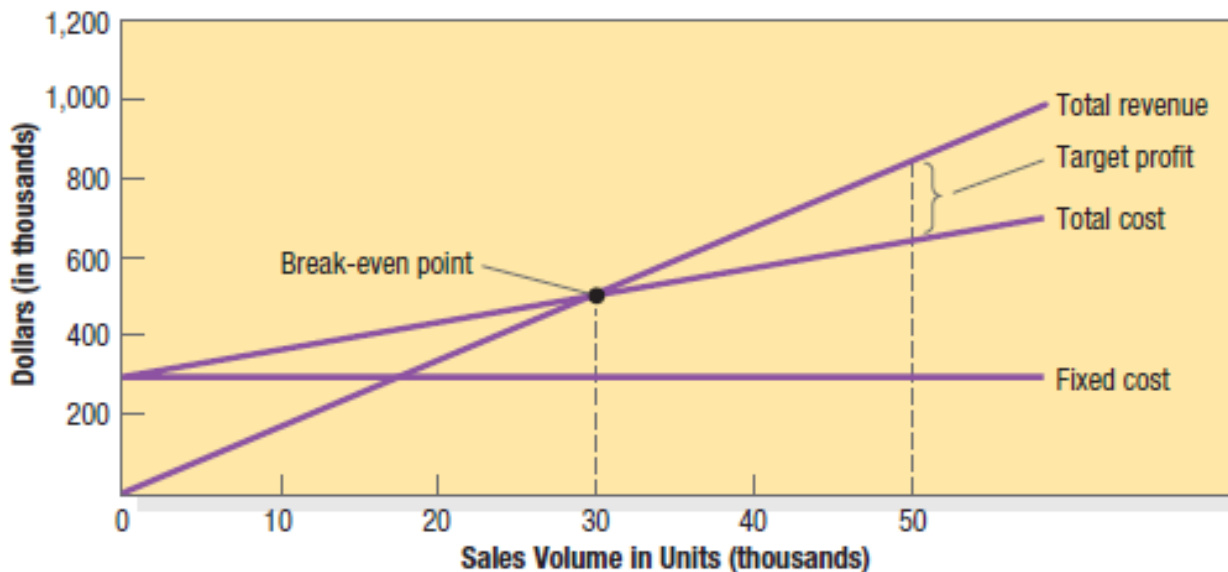




Step 5: Selecting a Pricing Method

- Markup pricing
- Target-return pricing
- Perceived-value pricing
- Value pricing
- Going-rate pricing
- Auction-type pricing

Figure 14.5 Break-Even Chart for Determining Target-Return Price and Break-Even Volume



Dollar Store Pricing





Auction-Type Pricing

English

Dutch

Sealed-Bid



Step 6: Selecting the Final Price

- Impact of other marketing activities
- Company pricing policies
- Gain-and-risk sharing pricing
- Impact of price on other parties

Geographical Pricing

- Pricing varies by location



Price Discounts and Allowances

- Discount
- Quantity discount
- Functional discount
- Seasonal discount
- Allowance





Promotional Pricing Tactics

- Loss-leader pricing
- Special-event pricing
- Cash rebates
- Low-interest financing
- Longer payment terms
- Warranties and service contracts
- Psychological discounting



Differentiated Pricing

- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing
- Yield pricing



Traps in Price Cutting Strategies

- Low-quality trap
- Fragile-market-share trap
- Shallow-pockets trap
- Price-war trap

Should We Raise Prices?

	Before	After	
Price	\$10	\$10.10	(a 1% price increase)
Units sold	100	100	
Revenue	\$1,000	\$1,010	
Costs	-970	-970	
Profit	\$30	\$40	(a 33 1/3% profit increase)



Methods for Increasing Prices

- Delayed quotation pricing
- Escalator clauses
- Unbundling
- Reduction of discounts



Brand Leader Responses to Competitive Price Cuts

- Maintain price
- Maintain price and add value
- Reduce price
- Increase price and improve quality
- Launch a low-price fighter line



For Review

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